

VZCZCXRO2227

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DE RUEHTI #0153/01 0651410
ZNR UUUUU ZZH
P 061410Z MAR 09
FM AMEMBASSY TIRANA
TO RUEHC/SECSTATE WASHDC 7946
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUEAIIA/CIA WASHDC PRIORITY
RUEHVEN/USMISSION USOSCE PRIORITY 2456
RHEFDIA/DIA WASHINGTON DC PRIORITY
RUCNDT/USMISSION USUN NEW YORK PRIORITY 0795
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY
RUEKJCS/SECDEF WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 02 TIRANA 000153

SIPDIS
SENSITIVE

DEPT FOR EUR/SCE J.ISMAIL
TREASURY FOR V.ATUKORALA

E.O. 12958:N/A

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [AL](#)

SUBJECT: ALBANIA: FINANCIAL CRISIS REACHES ALBANIA

REF: 08 TIRANA 884

¶1. (SBU) SUMMARY: The global financial crisis is finally starting to affect Albania. Albanians have been withdrawing their deposits from banks, affecting banks' ability to buy domestic treasury bonds to help finance the deficit. The Ministry of Finance has gone to commercial banks seeking 300 million euro in loans but so far has been unable to secure a loan. Commercial banks are reluctant to loan the government as much money as it needs and are demanding high interest rates. Foreign trade volume fell by 10 percent in January. Overall the construction and apparel industries have been hardest hit. The lek has depreciated against the euro by 6 percent since the beginning of the year and by over 30 percent against the dollar. End Summary.

Economic Scenario Not So Rosy Anymore

¶2. (U) When Albania's 2009 budget was approved in November 2008, the planned deficit of USD 549 million (4.2 percent of GDP) was within IMF guidelines. The GOA's plan was to finance 83 percent of the deficit through domestic borrowing and use 300 million euro of privatization revenues to finance additional public projects and to further reduce the deficit. The GOA was trumpeting Albania's apparent insulation from the global meltdown and saw easy sailing ahead.

¶3. (U) That optimism is beginning to fade. Remittances, Albania's lifesaver from its diaspora, are declining, and with them, the construction industry is beginning to stall. The apparel industry, which employs many Albanians in poor rural areas, has asked the Ministry of Finance for financial help. Bank deposits have fallen over the last four months by almost USD 500 million, which might be leaving already cash-strapped banks with insufficient reserves to purchase government bonds. Bank loans in euro to businesses and individuals fell from 115 million euro in December to 45 million in January. Lek loans also declined, but by a much smaller percentage.

GOA Struggling To Close Loan Deal to Finance Deficit

¶4. (U) In early January the Ministry of Finance issued a tender for 300 million euro in loans from commercial banks. (A 300 million euro Eurobond offering scheduled for early 2009 was canceled due to lack of liquidity in the global financial markets.) According to Minister of Finance Bode, the loans would help the Albanian economy in two ways: Albanian banks would not feel under pressure to buy

Bank of Albania bonds and could focus on loans to businesses and individuals, and the GOA would ensure financing for its planned infrastructure projects, thus injecting needed capital into the economy. (Note: With parliamentary elections scheduled for June 28, the GOA is already using many of these projects to showcase what the government is doing for voters.) Near the beginning of February, Raiffeisen, Deutsche Bank, Alpha Bank, J.P. Morgan, Citigroup, Credit Suisse and BNP Paribas had presented offers.

15. (U) According to recent media reports, the MOF is having difficulty with the negotiations. A consortium composed of Deutsche Bank and Alpha Bank was selected to come up with a syndicated loan since no one bank was willing to finance the entire amount. With the global liquidity crisis the government has not been able to find financing at a sufficiently low interest rate. According to recent news reports interest rate quotes have been as high as 7 percent, up from 5.5 percent last fall.

16. (SBU) COMMENT: The rose-colored glasses through which the GOA has been viewing the global economic and financial crisis are getting foggy. The GOA is finally beginning to realize that Albania is not an island insulated from the rest of the world, as international experts including the IMF have been warning for several months now. We have heard of companies particularly in the construction sector complaining that their business is down and that many apartments are either remaining unsold or are being sold for prices below last summer's. In addition, the lek's fall against the euro will make imports more expensive. Since most Albanian food products in the winter months are imported, this hurts all sectors of the economy but particularly the poor. Finally, the Bank of Albania needs to monitor closely any cash transfers by Albanian banks to their parent companies abroad in order to ensure the

TIRANA 00000153 002 OF 002

required liquidity for the financial sector in the coming months.

WITHERS